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C O N F I D E N T I A L SECTION 01 OF 02 BASRAH 000055

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SUBJECT: MINISTRY OF OIL REMOVES SOUTH OIL COMPANY DIRECTOR GENERAL

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REASON: 1.4 (d)

11. (C) Summary: On May 23, the Ministry of Oil (MoO) announced it had removed South Oil Company (SOC) Director General Jabbar Al-Lu'aybi. Kefah Kamal, Jabbar's Deputy, has been appointed to serve as SOC's interim DG. Although Minister of Oil Husayn Al-Shahristani issued the order in mid-May, Jabbar was still working at SOC headquarters as of May 29. Industry contacts defined the personnel shuffle at SOC as "fluid" and believe that there is a possibility that Jabbar will be reinstated, adding that he is widely supported by SOC employees, tribal leaders, and foreign oil companies. The MoO cited several reasons for Jabbar's dismissal. In addition to allegations of corruption and suspicion that Jabbar has been complicit with rampant oil smuggling operations, Shahristani believes that Jabbar has undermined MoO authority in his internal management decisions and his negotiations with foreign oil companies. Many believe, however, that Jabbar's dismissal is politically motivated. PM Maliki has used the success of the Charge of Knights (COK) operation to make sweeping personnel changes in the south. While many of the changes were necessary, some Baswaris believe that the GOI is being opportunistic. If there was ever a time for Maliki to clean house to improve central government control over state-owned enterprises and advance his political agenda ahead of provincial elections, now would be that time. END SUMMARY.

12. (SBU) On May 23, the Ministry of Oil (MoO) announced it had removed South Oil Company (SOC) Direct General Jabbar Al-Lu'aybi. A temporary council of the Basrah governate originally appointed Jabbar as DG in April 2003. Although there was no legal nomination process and the posting was meant to be temporary, Jabbar has been the principal driving force behind SOC efforts to improve infrastructure and develop relationships with foreign investors. Jabbar is widely known as a very adept negotiator who has successfully managed relationships that cross political affiliations. He is revered for being able to get things done, particularly as it relates to the oil and gas industry. According to SOC contacts, he has undoubtedly provided a great deal of stability within South Oil Company.

13. (C) The stability Jabbar has provided has come at a price. According to SOC sources, Jabbar is known throughout the province as the "godfather" and he has allegedly made a number of concessions that, if true, would support the MoO's claims that he is corrupt. A senior-level manager at South Refinery told the REO that the MoO believes Jabbar has been complicit with oil smuggling operations involving fellow Fadhila members, which include the misuse of USG-funded meters. According to the contact, Jabbar has also been accused of employing hundreds of unqualified workers to alleviate tensions between rival political parties and assisting in the appropriation of funds for fraudulent or nonexistent SOC projects.

¶4. (C) Although Minister of Oil Husayn Al-Shahristani issued the dismissal order in mid-May, Jabbar was still working at SOC headquarters as of June 1. The MoO clearly wants to portray Jabbar's removal from his post as a reassignment. In fact, it is being advertised publicly as a promotion. It is clear, however, that even if the GOI appoints Jabbar as Iraq's advisor/representative to OPEC (pursuant to industry rumors), neither Jabbar nor his allies will view his removal from SOC as a promotion. Despite public reports of a strained relationship between Jabbar and Shahristani, SOC and other industry sources contend that the two had a very productive and cooperative private relationship. However, that relationship has soured over the past few months. According to a source working for a major oil company in the region, Shahristani believes Jabbar consistently undermined MoO authority in his internal management decisions and, more importantly, his negotiations with foreign oil companies. While Jabbar has been accused of overstepping his authority, both PM Maliki and Shahristani understand Jabbar's value to the development of Iraq's oil infrastructure and the importance of keeping him engaged in negotiations with foreign oil companies (thus the "promotion").

¶5. (C) Jabbar has expressed some reservations regarding the hydrocarbon law. In fact, officials within the MoO believe Jabbar has been an obstacle to getting hydrocarbon legislation moved forward. However, oil industry sources contend that Jabbar is not opposed to production sharing agreements with foreign oil companies, but rather he wants SOC to be run as a regional enterprise without central government control. Throughout his tenure, Jabbar has expressed interest in bringing foreign companies into Iraq to help SOC develop its infrastructure and promote a more efficient production stream. Despite some of the issues regarding corruption, illegal payments to rival political parties, and employment opportunities for unqualified workers, Jabbar is seen by the major international oil companies to be pragmatic and

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predictable, which are two extremely important qualities in an otherwise uncertain operating environment.

¶6. (C) Many believe Jabbar's reassignment was politically motivated. Both he and Governor Mohammed Waeli are Fadhila members, and both have been accused of oil smuggling. They are not the only officials who have been marginalized since PM Maliki began his Charge of Knights Operation (COK) in late-March. Maliki has removed top officials within the military, managers at the Port of Umm Qasr, and other high-profile leaders in the province. Since Maliki began making these sweeping changes in personnel, security in Basrah has improved and revenues at Umm Qasr have increased by more than 100 percent. The success of COK has provided the central government with a considerable amount of leverage and, until now, Maliki has been given carte blanche in decisions to replace key officials. Although most of the changes have appeared to be in the best interest of the province, there is no doubt that the GOI is also being opportunistic. If there was ever a time for Maliki to make changes to advance his political agenda ahead of provincial elections, now would be that time. However, while most of those removed from their positions over the past month have gone unchallenged, Jabbar's reassignment is being disputed by some Provincial Council members, tribal leaders, and SOC employees who have threatened to strike.

¶7. (C) An Olive Group contact who speaks to Jabbar on a daily basis believes that there are two probable outcomes. He said that Jabbar will either be an advisor for the MoO and serve as the focal point for the projects and contracts for the major oil companies; or he will be reinstated as the DG for a short time period during which he would prepare his supporters to accept the idea of him stepping aside from SOC. In the meantime, Jabbar's deputy, Kefah Kamli, has moved into the DG slot. Kefah is regarded as an experienced and well-respected technical manager who has served as Jabbar's trusted right hand. Kefah does not have the same level of "loyalties" and relationships outside SOC. He is viewed by the central government to be a

safe choice to serve as interim DG. However, it is unlikely that the MoO will choose him as its permanent SOC DG because of his strong ties to Jabbar.

HOWARD